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Central Intelligence Agency

Washington, D.C. 20505

24 April 1986

The Honorable Robert L. Livingston
House Appropriations Committee
House of Representatives
Washington, D. C. 20515

Dear Mr. Livingston:

We continue to watch the Soviet oil situation closely. I checked with our Soviet experts after speaking to you this morning, and they inform me that the situation has not changed since I forwarded our assessment on 9 April to the Permanent Select Committee on Intelligence. Enclosed is a copy of that report. [redacted] 25X1

This subject is a high priority for us, and I welcome your interest. [redacted] 25X1

Sincerely, 25X1

[redacted]

John L. Helgerson
Associate Deputy Director
for Intelligence

Enclosure

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Impact of Lower Oil Prices on the USSR

Low oil prices, a depreciating dollar, and declining domestic oil production will substantially reduce Moscow's ability to import Western equipment, agricultural goods, and industrial materials. Oil earnings dropped about $3 billion in 1985 and could fall as much as $7 billion this year. 25X1

Over one-third of Soviet imports are paid for in hard currency. Should oil prices remain low, the dollar fail to appreciate, and domestic oil production continue to decline for the rest of the decade, Moscow's annual hard currency import capacity could drop by nearly 40 percent from its 1984 level of $27 billion. While this estimate allows for some increase in debt to the West, large annual gold sales, and little increase in nonenergy exports, we doubt Moscow will abandon its conservative borrowing strategy, and thus jeopardize its ability to finance key imports such as grain in bad harvest years. 25X1

Instead, mounting evidence indicates that the Soviets are reducing the level of planned imports for 1986 and beyond. These cutbacks appear to be occurring across the board. In addition to dealing with the immediate scarcity of hard currency, these cuts will buy the leadership time to implement an import strategy that reflects the long term nature of the problem. 25X1

While success of Gorbachev's modernization program hinges on internal factors, his lofty goals--when matched against a realistic assessment of the capabilities of domestic producers--imply that some highly specialized imports from the West for such sectors as energy, machine tools, microelectronics, and telecommunications must be continued, if not increased. Import cuts in key intermediate goods such as specialty steels, in turn, could exacerbate already taut production schedules. 25X1

Soviet planners will--if they are not already doing so--need to revise and reformulate the five-year plan to account for reduced imports. In setting new priorities, Moscow may hope that efforts to improve worker discipline and economic management will boost domestic production of farm products, industrial materials, and machinery, reducing reliance on Western imports. Even with some success in this regard, the drop in hard currency earnings will increase pressure on Moscow to alter the nature of its trade relations both with its clients and with the West. 25X1

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- Moscow will press its Eastern European allies to fill some of the gap in hard currency imports, particularly machinery, and at some point could cut back on its oil deliveries to the region. Eastern Europe, however, is not in a position to provide the scale of support the Soviets are likely to want or to absorb large cuts in oil imports from the USSR. [redacted] 25X1

- Moscow may decide to step up the pace of current efforts to alter the relationship between Soviet entities and Western firms to enhance the effectiveness of imported technology and equipment, e.g. Western management participation and profit sharing. The Soviet leadership may even consider measures to ease East-West tensions to foster a climate more conducive to attracting the help it needs. It will proceed cautiously, however, and not hesitate to pull back should it sense that the West is striving to take advantage of its weakened trade position. [redacted] 25X1

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